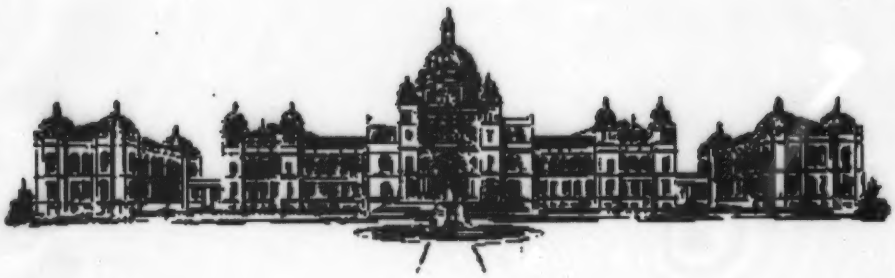
The Legislative Assembly of
British Columbia

REVIEW OF AUDITOR GENERAL REPORTS

Select Standing Committee on

Public Accounts

REPORT



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February 7, 2002

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Report* of the Select Standing Committee on Public Accounts for the Second Session of the Thirty-Seventh Parliament.

The *Report* covers the review by the Committee of six Auditor General reports. It also contains the Committee's recommendations regarding the retention and disposal of government records of three ministries.

Respectfully submitted on behalf of the Committee.

Jenny M.L. Kwan

Ms. Jenny Kwan, MLA
Chair

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COMPOSITION OF THE COMMITTEE

MEMBERS

Jenny Kwan, MLA	Chair	Vancouver-Mount Pleasant
Brian Kerr, MLA	Deputy Chair	Malahat-Juan de Fuca
Tony Bhullar, MLA		Surrey-Newton
Harry Bloy, MLA		Burquitlam
Ida Chong, MLA		Oak Bay-Gordon Head
Kevin Krueger, MLA		Kamloops-North Thompson
Blair Lekstrom, MLA		Peace River South
Joy MacPhail, MLA		Vancouver-Hastings
Lorne Mayencourt, MLA		Vancouver-Burrard
Barry Penner, MLA		Chilliwack-Kent
Ralph Sultan, MLA		West Vancouver-Capilano

CLERK TO THE COMMITTEE

Craig James, Clerk of Committees and Clerk Assistant

COMMITTEE RESEARCHERS

Josie Schofield, Research Analyst

Audrey Chan, Assistant Researcher

TERMS OF REFERENCE

On August 27, 2001, the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the second session of the thirty-seventh parliament were deemed referred to the Select Standing Committee on Public Accounts, and in addition that the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:

- Managing Interface Fire Risks (June 2001)
- Report on Government Financial Accountability for the 1999/2000 Fiscal Year (March 2001)
- Monitoring Credit Unions and Trust Companies in British Columbia (March 2001)
- Management Consulting Engagements in Government (March 2001)
- Follow-up of Performance and Compliance Reports (December 2000)
- Governance and Risk of the Fast Ferry Project (October 1999)

In addition to the powers previously conferred upon the Select Standing Committee on Public Accounts, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

THE WORK OF THE COMMITTEE

The all-party Select Standing Committee on Public Accounts held six public meetings during the second session of the 37th Parliament. One subcommittee meeting on agenda and procedure also took place.

The Public Accounts Committee held its first meeting on October 31, 2001. Following the election of the Chair and Deputy Chair, procedural and administrative matters related to the Committee's terms of reference were discussed. Members then received an orientation on the respective roles the Auditor General and the Comptroller General play in the work of the Committee.

Committee members learned that an important part of the role of the Auditor General — the Legislative Assembly's auditor — is to help the members of the Public Accounts Committee review the province's public accounts, to support their review of other topics covered by the Auditor General's reports and to follow up on progress made in implementing the office's recommendations.

The Comptroller General — the government's chief accounting officer — undertakes the arranging of government witnesses to respond to the Auditor General's recommendations. In most cases, ministry representatives will be scheduled, but the Comptroller General himself responds directly to the Auditor General's reports on the financial statements of the province and other topics. His office also provides information on government payments related to the province's public accounts and acts as a financial systems and policy resource to the Committee during its deliberation of reports.

At the end of its first meeting, the members of the Public Accounts Committee elected a subcommittee to develop a workplan. The subcommittee met on November 20, 2001, and the full Committee approved its proposed work schedule in early December.

The Committee reviewed six reports tabled by the Office of the Auditor General in a series of five meetings between December 5, 2001 and February 7, 2002. A summary of this review process is the focus of the Public Accounts Committee's report to the House.

At the public meeting on December 5, 2001, committee members were briefed about the follow-up process. They learned that the Office of the Auditor General carries out follow-up reviews, in co-operation with ministries. The reviews provide the Legislative Assembly and the public with information on the progress being made by government organizations in implementing the recommendations arising from the original audits and the deliberations of the Public Accounts Committee, the client of the process. The goal is to provide timely updates. The management of audited agencies is asked to provide information on actions taken and progress made. The Office of the Auditor General then conducts a review, which provides a moderate level of assurance.

During its public meeting on January 9, 2002, the Public Accounts Committee heard a presentation by Jean-Pierre Boisclair, the President of the Canadian Comprehensive Auditing Foundation (CCAF). His briefing described the CCAF's public performance reporting program as a multi-year,

multi-phased "holistic" program, which is intended to help move public performance reporting by governments to a needed "next generation." The speaker stated that his objective is to stimulate the interest of MLAs in the development of principles that will guide performance reporting in public sector institutions.

Transcripts of meetings and the report of the Public Accounts Committee are available on the Office of the Clerk of Committee's web site at: www.legis.gov.bc.ca/cmt/.

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INTRODUCTION

On August 27, 2001 six reports of the Auditor General of British Columbia were referred to the Select Standing Committee on Public Accounts. They were deposited with the Speaker of the Legislative Assembly between October 1999 and June 2001.

After due consideration, the Public Accounts Committee selected four of the six reports for review. The Committee opted to have a briefing rather than a formal hearing on the Auditor General's compilation of the follow-up reports, which had been discussed in the past. It also decided not to re-examine the Auditor General's report on the fast ferry project.

Under the terms of reference, the Public Accounts Committee was also instructed to review reports of the Auditor General tabled during the second session of the 37th Parliament, which began on July 24, 2001. The Committee reviewed two reports relating to TransLink and public performance reporting, the only ones to be deposited to date with the Speaker during the second session.

In total, the Public Accounts Committee reviewed six reports at public meetings held in Victoria between December 5, 2001 and February 7, 2002. The reports selected for consideration were:

- Auditor General Report, *Monitoring Credit Unions and Trust Companies in British Columbia* (March 2001);
- Auditor General Report, *Management Consulting Engagements in Government* (March 2001);
- Auditor General Report, *Managing Interface Fire Risks* (June 2001);
- Auditor General Report, *Report on Government Financial Accountability for the 1999/2000 Fiscal Year* (March 2001);
- Auditor General Report, *Transportation in Greater Vancouver: A Review of Agreements between the Province and TransLink, and of TransLink's Governance Structure* (August 2001); and
- Auditor General Report, *Building Better Reports: Public Performance Reporting Practices in British Columbia* (December 2001).

STRUCTURE OF THE REPORT

This report draws attention to the main issues raised by members of the Public Accounts Committee at the public meetings. Where appropriate, the Committee has commented on unresolved issues.

Chapter 2 addresses issues raised in relation to the Auditor General's report on monitoring of credit unions and trust companies in British Columbia.

Chapter 3 summarizes the discussion of the Auditor General's report on management consulting engagements in government.

Chapter 4 focuses on issues raised in relation to the Auditor General's report on the management of interface fire risks.

Chapter 5 summarizes the discussion related to the Auditor General's report on government financial accountability for the 1999/2000 fiscal year.

Chapter 6 addresses issues raised in relation to the Auditor General's report on the governance of transportation in Greater Vancouver.

Chapter 7 focuses on concerns raised in relation to the Auditor General's report on public performance reporting practices in British Columbia.

Chapter 8 records the Public Accounts Committee's recommendations relating to the retention and disposal of government records.

Copies of the reports produced by the Office of the Auditor General are available on its web site: http://bcauditor.com/AuditorGeneral.htm.

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AUDITOR GENERAL REPORT NO. 5, 2000-2001

Monitoring Credit Unions and Trust Companies in British Columbia

INTRODUCTION

The Public Accounts Committee met on December 5, 2001 to review the Auditor General's report on monitoring credit unions and trust companies. It heard presentations by the Office of the Auditor General, the Financial Institutions Commission and the Ministry of Finance.

SUMMARY OF AUDIT

Background

The Financial Institutions Commission (FICOM) is the provincial agency responsible for monitoring credit unions and trust companies in British Columbia for compliance with the *Financial Institutions Act* and the *Credit Union Incorporation Act*. These statutes provide the regulatory framework for protection of the public.

The financial institutions that fall under the purview of FICOM have considerable assets. At the end of September 1999, approximately $28 billion was on deposit with credit unions and trust companies in B.C., compared to some $62 billion on deposit with banks in the province.

Audit Scope

The audit team examined FICOM's monitoring activities during the 1999 calendar year, based on a sample that included 16 of the 79 credit unions and all six trust companies incorporated in B.C., as well as ten of the 41 extra-provincial trust companies operating in the province. This one-time compliance audit also included the Four Corners Community Savings bank, which is a Crown corporation that is monitored by FICOM as if it were a trust company.

Audit Purpose and Findings

The Committee was told that the purpose of the audit was to examine whether FICOM was adequately monitoring credit unions and trust companies for compliance with the *Financial Institutions Act* and, where relevant, the *Credit Union Incorporation Act* – specifically with respect to incorporation and ownership; business operations (business authorization, minimum capital and liquidity, annual filing requirements and market conduct); corporate governance (standards for board membership, investment and lending policies); related party transactions; and insurance coverage of deposits.

As well, the audit team examined whether FICOM was carrying out examinations of the 16 credit unions and six trust companies with the frequency required by the legislation and was taking enforcement action, where necessary.

The witnesses informed the Committee that FICOM's monitoring work of credit unions and trust companies was "extensive" and carried out in a "well-organized and thorough manner," and that the Auditor General's nine recommendations are designed to improve compliance with the regulatory framework. Their only significant concern — reflected in recommendation No. 7 — relates to FICOM's ability to monitor compliance with the market conduct requirements of the legislation as they apply to extra-provincial trust companies.

FICOM'S RESPONSE

The officers representing FICOM reported to the Committee that the Auditor General's findings were "extremely positive" and helpful for the organization. They have implemented seven of the Auditor General's nine recommendations. The recommendation regarding information-sharing with the federal superintendent of financial institutions is subject to negotiations, which are currently under way.

However, FICOM has declined to implement the Auditor General's seventh recommendation regarding monitoring extra-provincial trust companies, for reasons noted below. In addition, the witnesses expressed reservations about the practicality of implementing the second recommendation regarding background checks.

COMMITTEE CONCERNS

In its deliberations, the Committee considered the following issues:

- the challenge of performing background checks on personnel who have lived in foreign jurisdictions;
- whether a complaints-based approach to monitoring the market conduct of extra-provincial trust companies is more cost-effective than field examinations; and
- the level of public awareness of the Financial Institutions Commission and consumer education regarding credit unions and trust companies.

Some committee members were also interested in FICOM's views on the impact of mergers and consolidations of credit unions and trust companies on the agency's monitoring work, the minimum liquidity requirements in B.C., and how FICOM monitors non-compliance with rules and regulations.

Background Checks Involving Foreign Jurisdictions

The Committee was receptive to FICOM's concern about the challenge it faces in implementing the Auditor General's second recommendation to extend its background checks to include any foreign countries that directors and senior officers have been residents of for the past five years. Past practice has been for the agency not to perform background checks in foreign countries when the director or senior officer has recently immigrated to Canada or returned from living abroad.

The witnesses informed the Committee that FICOM is "totally reliant" on the RCMP's abilities to solicit information from foreign jurisdictions and on the cooperation of foreign jurisdictions in providing information. In other words, FICOM may request information, but it is compelled, at times, to accept incomplete replies from countries, such as Switzerland, which tend not to respond to these kinds of information requests.

Staff from the Office of the Auditor General indicated to the Committee that they were aware of the practical limitations to implementing the recommendation. They agreed that it is appropriate for FICOM to rely on the RCMP's abilities in soliciting information.

Monitoring Extra-Provincial Trust Companies

The Committee learned that recommendation No. 7 of the Auditor General's report is intended to address the issue of the lack of regular monitoring of the market conduct of extra-provincial trust companies. These companies are incorporated in other jurisdictions outside B.C. but have received authorization from FICOM to conduct business in the province. The federal agency that monitors them does not look into market conduct (advertising, tied selling, confidentiality of customer information); and FICOM limits its monitoring role to following up on complaints.

The recommendation proposes that FICOM periodically perform field examinations of these companies to monitor their compliance with the marketing requirements of the *Financial Institutions Act*, or else it should seek assurance from the primary regulator that British Columbia's legislated requirements are being complied with.

FICOM officials explained to the Committee that they have declined to implement this recommendation because they felt that neither of the solutions proposed in the recommendation would bring benefits that outweigh the costs.

Due to limited resources, FICOM generally adopts a risk-based or complaints-driven approach to monitoring for compliance so that scarce resources are allocated to areas where the most risk exists. Since market conduct complaints against extra-provincial trust companies, historically, have averaged less than five a year, FICOM does not think that committing resources to perform regular examinations would be justified.

The FICOM witnesses also rejected the other option on the grounds that the requirement to seek assurances from the primary regulator of an extra-provincial trust company that B.C.'s legislated market conduct requirements are being complied with would likely create difficulties around jurisdictional and constitutional issues. In addition, the Finance ministry official told the Committee that seeking assurance from the primary regulator would have cost implications.

In his response, the Auditor General recognized that it would be a challenge to secure an agreement among federal and provincial regulators. He suggested that the Committee could encourage FICOM to work with the federal regulators to ensure that there is one regulator carrying out the responsibility.

Public Awareness and Consumer Education

Some members expressed interest in the work that FICOM has done, or plans to do, with respect to public awareness and consumer education. They learned that its consumer awareness initiatives have been discontinued for a number of years.

Currently FICOM maintains a government web site at www.fic.gov.bc.ca. The agency is committed to providing more public information and raising consumer awareness in the coming fiscal year (2002/03). For example, FICOM plans to produce a brochure explaining the advantages and disadvantages of dealing with companies over the Internet.

COMMITTEE CONCLUSIONS

Based on our review of the Auditor General's report, the Committee is satisfied with the overall performance of the Financial Institutions Commission, the agency that monitors the financial health of credit unions and trust companies operating in British Columbia.

In response to what we have heard, we think that there is a case for extending the Auditor General's second recommendation to reflect the limitations of doing background checks in foreign jurisdictions. As well, we would like to be kept informed about the negotiations among federal and provincial agencies in regard to monitoring extra-provincial trust companies.

We would also like to encourage FICOM's work in raising public awareness and promoting consumer education about credit unions and trust companies.

COMMITTEE RECOMMENDATIONS

The Committee endorses recommendation No. 1 and recommendations Nos. 3 to 9 inclusive in the Auditor General's 5th Report for 2000/2001, *Monitoring Credit Unions and Trust Companies in British Columbia*, and recommends the same to the Legislative Assembly.

With regard to the Auditor General's second recommendation, the Committee recommends that the Financial Institutions Commission extend its background checks to include any foreign countries that directors and senior officers have been residents of in the past five years, subject to the extent of information that may be obtained by the RCMP from these foreign jurisdictions.

The Committee recommends that as part of the follow-up process, the Financial Institutions Commission submit to the Auditor General and the Select Standing Committee on Public Accounts an update of its strategic plan for public awareness and consumer education activities, including a time line.

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AUDITOR GENERAL REPORT NO. 4, 2000-2001

Management Consulting Engagements in Government

INTRODUCTION

The Public Accounts Committee met on December 5, 2001 to review the Auditor General's report on management consulting engagements in government. It heard presentations by the Office of the Auditor General, the Office of the Comptroller General and the Purchasing Commission (based in the Ministry of Management Services).

SUMMARY OF AUDIT

Background

The provincial government spends about $16 million annually on management consultants. Consultants are engaged for a variety of purposes, including advising government on proposed investments and evaluating program and policy results. The impact of this advisory service is often greater than the cost of the consultant, sometimes resulting in multi-million dollar investments or significant service improvements.

Audit Scope

The audit was limited to a sample of management consulting contracts within five ministries during the fiscal period 1997/98 to 1999/00. Contracts were randomly selected for review from the five ministries with the highest expenditures in management advisory services: Ministry for Children and Families; Ministry of Health; Ministry of Forests; Ministry of Advanced Education, Training and Technology; and Ministry of Employment and Investment. For each of the contracts selected, the audit team reviewed all relevant documentation and interviewed ministry staff and many of the consultants involved.

Audit Purpose and Findings

The Auditor General informed the Committee that the purpose of the audit was to examine two issues:

1) Is the government receiving value for money from its management consulting engagements?
2) Is the awarding of these contracts done in a fair and open manner?

The Auditor General then summarized the conclusions. On the first issue, the key finding of the audit team is that most of the management consulting engagements reviewed resulted in "good value for money." However, some improvements were needed.

Regarding the awarding of contracts, the audit team concluded that many of the contracts reviewed were awarded to consultants directly, rather than through the competitive process required by government policy.

GOVERNMENT'S RESPONSE

Office of the Comptroller General

The Comptroller General began his presentation by noting that the Auditor General's report focuses on management consulting contracts, not government contracting in general, where there is a much more defined and rigorous process. He explained that his office is involved because it puts the policy manuals together and helps interpret, explain and train ministry personnel on government procurement policy, together with the Purchasing Commission.

The Comptroller General informed the Committee that the government has accepted all of the Auditor General's recommendations, which are in line with the direction that the government wants to take. The report has been discussed in his own office and at the senior financial officers' council — a group he chairs and uses as a tool to disseminate policy.

The director of the office's financial management branch then presented a status report on the implementation of the Auditor General's recommendations. He reported that nine of the 12 recommendations were directed at ministries and that three pertain to overall government policy. Concerning the latter, the government is reviewing the $25,000 threshold and the rules surrounding exceptions to competitive awarding of contracts (recommendation No. 4). However, a cross-government audit of service contracts management planned for this year has been deferred, due to heavy workloads (recommendation No. 5). As well, government is exploring the feasibility of implementing a contract management information system to undertake annual reporting of all service contracts (recommendation No. 6).

The witness pointed out that the policy-related issues raised by the Auditor General's report required continued vigilance, ongoing compliance and appropriate reporting and enforcement. Furthermore, procurement policies and procedures will be subject to change, as a result of the Purchasing Commission's procurement modernization initiative, and the policy consolidation and simplification initiatives led by the Office of the Comptroller General.

Purchasing Commission

The official representing the Purchasing Commission pointed out that while procurement reform is not a direct result of the audit, it fits well with the Auditor General's recommendations. The witness told the Committee that under the procurement modernization initiative, a new policy and procedure framework is being developed, and that a fair and open procurement act will be introduced. This combined effort will assist ministries in their ongoing activities flowing from the Auditor General's recommendations and lead to improved procurement, and therefore improved contracting.

COMMITTEE CONCERNS

In its deliberations, the Committee considered the following issues:

- the appropriateness of the existing threshold for non-competitive contracts;
- the enforcement of established policies; and
- the need to audit other types of government contracts.

Committee members also asked the witnesses questions about the status of the government consulting group, the types of management consulting contracts, the automatic renewal of contracts and follow-up of contractors, the audit period, and the training program for contract administrators.

Threshold for Non-Competitive Contracts

Some committee members were concerned about the significant degree of non-compliance with competitive bidding for management consulting contracts. They asked about the cost savings of awarding contracts directly, particularly for those contracts around the $25,000 threshold, compared to going through a competitive bidding process.

In response, the Comptroller General stated that the purpose of the threshold is to allow pressing work to be completed very quickly, or to permit the hiring of an organization with expertise and a proven track record. He also stated that it is really hard to measure what the impact of the $25,000 threshold would be on administrative costs, adding that a strategy of the government has always been that it is best to tender first, because that is the only way to measure dollars to be spent against the expected outcomes. While the threshold recognizes that certain circumstances do not justify the costs of open tendering, the question of whether $25,000 is still the appropriate dollar threshold is being looked at.

Enforcement of Established Policies

Other committee members were concerned about the enforcement of established policies, in view of the high incidence of non-compliance identified in the Auditor General's report. They asked the witnesses from the Office of the Comptroller General whether they had the tools and the authority to deal with cases of non-compliance in the future.

In response, the director of the financial management branch explained that their normal response would be to inform contract administrators of the problem disclosed by the Auditor General, and that training is a component in fixing the problem, as well as communication — identifying what the policy is and how things are to be done. If there is continued non-compliance, then the office, through its internal audit function, has the opportunity to escalate that and make the ministry executive aware that a problem exists and needs to be resolved.

The Comptroller General then outlined for the Committee the model of financial administration his office follows. He stated that this decentralized model puts accountability on those initiating the contracts, but sometimes it poses a challenge in terms of enforcement of policies. While his office may put policies in place and provide direction, the senior financial officers within ministries are responsible for contracting and enforcing government policies, through their executives and their various ministry programs.

In response to committee members' concerns about the size of some direct-award contracts, the Comptroller General stated that a contract management information system would be a helpful tool to help his office keep track of contracts. One way to monitor contracts and provide policy information, especially about exceptions, is to invest in the contract management module of Oracle Financials.

Auditing Other Types of Government Contracts

Some members were interested in whether the Office of the Auditor General has conducted, or plans to conduct, value-for-money audits of other types of personal-service contracts – namely, in cases where external contractors are hired to replace FTEs. They have heard stories about this happening and noted that an example of the practice is described in exhibit 14 on page 44 of the report. However, they wanted factual rather than anecdotal information about the kind of value for money the government is getting when contractors replace FTEs.

In response, the Auditor General stated that the future work program of his office would include an examination of the issues surrounding the capacity of the government to continue to deliver services when there is a significant change to its structure. The Auditor General suggested that the members' concern might be addressed in that context.

COMMITTEE CONCLUSIONS

The Committee believes that there is a strong case for implementing all the Auditor General's recommendations so as to tighten up the awarding of management consulting contracts. We have a particular concern about the number of contracts that have been awarded to consultants directly, rather than through the competitive process required by government contracting policy.

To deal with the issue of non-compliance, we would like the Comptroller General to identify for us where, in his opinion, enforcement authorities or powers are felt to be deficient, as part of the follow-up process. It is recognized that primary responsibility for compliance with policy rests with the ministries as part of their accountability for prudent financial management.

COMMITTEE RECOMMENDATION

The Committee endorses the 12 recommendations contained in the Auditor General's 4th Report for 2000/2001, *Management Consulting Engagements in Government*, and recommends the same to the Legislative Assembly.

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AUDITOR GENERAL REPORT NO. 1, 2001-2002

Managing Interface Fire Risks

INTRODUCTION

The Public Accounts Committee met on December 12, 2001 to review the Auditor General's report on managing interface fire risks. It heard presentations by the Office of the Auditor General, the office of the fire commissioner, the protection branch, and the provincial emergency program.

SUMMARY OF AUDIT

Background

Fires involving flammable vegetation, such as trees, brush and grasses, are called wildfires. When wildfires occur in areas where homes, businesses, cottages or other structures are located, they are called "interface fires."

British Columbia has the highest risk of injury and property losses from interface fires in Canada because of its climate and topography. These risks are increasing as a result of the increased migration of people to wildland-urban interface areas and the significant build-up of forest fuels (e.g. flammable undergrowth) resulting from years of successful fire suppression activities.

Out of 150 municipalities in B.C., 101 assessed their community as having "high/moderate fire risk." Almost half of these areas reported experiencing a significant interface fire within the last 10 years. Between 1994 and 1998, there were four major interface fires — the Garnet Fire, the Silver Creek Fire, the Lawless Creek Fire and the Greenstone Mountain Fire — that cost the provincial government millions of dollars to fight.

The wildfire management community in the province includes representation from both provincial and local governments. The legislative framework that governs their approach to managing the risk of interface fire in B.C. is made up of provincial statutes, regulations and municipal/regional district bylaws.

Audit Scope

The performance audit of the three provincial agencies with responsibilities for managing interface fire risks and local governments was conducted between December 1999 and July 2000. The audit team obtained evidence from three main sources: interviews, surveys and document reviews. They did not review the adequacy or appropriateness of the methods and approaches used to fight interface fires.

Audit Purpose and Findings

The Committee learned that the purpose of the audit was to assess the degree to which provincial and local governments in B.C. are prepared for major interface fires. The audit focused on four main questions:

1) Have the responsibilities relating to the management of interface fire risks been clearly assigned through legislation or otherwise?
2) Have adequate steps been taken to prevent interface fires and mitigate their effects if they occur?
3) Have adequate steps been taken to prepare to respond to and recover from interface fires if they occur?
4) Is adequate information being gathered about interface fire risks in order to assess the magnitude of the issue in the province, raise awareness, plan the appropriate provincial actions, and report on the levels of preparedness of communities?

Staff from the Office of the Auditor General summarized the audit findings for the Committee. They concluded that provincial and local governments in British Columbia need to be better prepared for major interface fires. To do this, governments need to: clarify the roles and responsibilities of key provincial and local agencies involved in managing the risks (particularly in the areas of prevention, preparedness and recovery); improve risk awareness levels among key government officials and residents; complete risk assessments in affected communities; take practical steps to mitigate the risks; and improve information-gathering and reporting.

The witnesses also pointed out that as many of the needed improvements are the responsibility of local governments, provincial agencies need to find effective ways to help communities manage the risks. The audit team concluded that the best way to make progress is to establish an interface fire committee under the provisions of the *Emergency Program Act*. The purpose of the committee is to develop strategies and action plans to improve the management of interface fire risks in the province.

The Committee learned that the other recommendations in the report are directed at each of the three provincial agencies involved in managing interface fire risks. In addition, the Auditor General's report includes a joint response from the relevant ministries supporting the overall conclusion and recommendations.

GOVERNMENT'S RESPONSE

Representatives from the office of the fire commissioner (now based in the Ministry of Community, Aboriginal and Women's Services), the protection branch of the Ministry of Forests, and the provincial emergency program (now based in the Ministry of Public Safety and Solicitor General) responded on behalf of the provincial government. All three agencies indicated their support for the Auditor General's recommendations and the establishment of the interface fire committee.

Office of the Fire Commissioner

The fire commissioner began his presentation by describing the partnership between the province and local government in terms of managing interface fire risks. The *Local Government Act* delegates fire suppression responsibilities to municipal governments. Since the municipalities have autonomy with respect to the fire protection services they provide within their boundaries, the province's role is limited to providing advice only.

In response to the Auditor General's recommendations, the office of the fire commissioner is in the process of updating its manual on establishing and operating a fire department and its sample operating guidelines and bylaws. Staff members also provide direct advisory and consultative services to communities on the operation of their fire departments. In addition, the office maintains a database of all fire department resources that can be called upon during a provincially declared emergency. The Committee was advised that this database will be updated, once tests of a new software program are completed.

Protection Branch

The director of the protection branch informed the Committee that the Ministry of Forests is committed to implementing the five recommendations of the Auditor General. Where appropriate, his ministry will also work in cooperation with the other provincial agencies.

Specifically, the ministry is in the process of developing a wildland fire act, which will replace the legislation in the current Forest Practices Code and identify the ministry's priorities relating to the protection of human life, property and resources. The new act is targeted for implementation in March 2004.

The witness also informed the Committee that hazard mapping and assessment has been completed in many unorganized areas of the province – namely, about 100 percent of the high/moderate risk areas in the southern portion of the province, and 20 to 30 percent in the northern portions.

Finally, the ministry continues to engage in its public education initiatives and to participate in a number of multi-agency practical exercises under unified command. The Committee also learned that the ministry's operating guidelines are undergoing their annual review, with input from local fire departments.

Provincial Emergency Program

The director of the provincial emergency program (PEP) expressed some caution in his presentation to the Committee. He explained that over two thirds of the Auditor General's recommendations would impact his program. However, with the current resource levels, expectations regarding their speedy implementation may be beyond his program's current capabilities.

The witness reported that to date, five of the eight recommendations specific to the provincial emergency program are either completed or implemented on an ongoing basis. The three other recommendations will be acted upon. They relate to: planning community emergency response, developing a program and annual schedule for interface fire exercises, and implementing assessment of recovery planning as part of the overall assessment.

The Committee also learned that although PEP officials are committed, along with the other stakeholders, to the establishment of an interface fire committee, they felt that the protection branch should continue to take a lead role in tackling interface fire issues, since it is a key player in public awareness, education and risk assessment.

COMMITTEE CONCERNS

In their deliberations, committee members were mainly concerned about the following issues:

- the disposal of hazardous fuels;
- the training of local firefighters;
- the role of public education in managing fire risks;
- the boundary impediments to fire department response;
- the role of local government; and
- the creation of a provincial interface fire risk committee.

Committee members also asked for clarification regarding the costs associated with the Ministry of Forests' involvement in fighting fires on private land before debating the relative merits of a "let-it-burn policy."

Disposal of Hazardous Fuels

Some members voiced concerns about the lack of public educational material regarding fire risks posed by discarded propane tanks, which are stored in homeowners' sheds or elsewhere on their property. If their valves are not replaced, these tanks could be hazardous to local residents and firefighters on active duty. The members also wondered whether there is sufficient emphasis on community and regional district participation in programs where people are actively encouraged to turn over old fuel containers like jerry cans for safe disposal.

The fire commissioner responded positively to the members' suggestion of having some sort of reclamation program for stale gasoline and indicated that he would present the idea to his office's public education committee. He also informed the Committee that the storage of flammable, combustible liquids falls under the B.C. Fire Code, whereas the gas safety branch of his ministry regulates propane cylinders. In addition, some local jurisdictions offer a recycling program for old tanks.

Training Local Firefighters

The Committee recognized the need to improve the training of local firefighters. However, some members had concerns that the designated agency, the provincial emergency program, would not have the resources to deliver emergency response management training. They asked the other government witnesses whether they would take on the responsibility for fire department training.

In response, the fire commissioner reiterated that the operation of a fire department is a local government responsibility, whereas his office is limited to an advisory and consultative role. While his office does develop training standards for the different ranks of the 14,000 firefighters in the province, municipalities themselves determine what level of training they want to provide for their firefighters. However, the fire commissioner noted that many local fire departments cannot afford to pay the tuition fees for the training provided by the Justice Institute and the Fire Academy.

As a follow-up question, a committee member asked the fire commissioner if local governments are sufficiently aware of their responsibility for fire department training and the importance of it. In response, the fire commissioner stated that his office liaises closely with the Municipal Insurance Association of B.C. and the UBCM to ensure that advice and information are available to local governments.

Role of Public Education

Some members raised questions about the role public education and information has played, and should play, to encourage people to take a bit more responsibility for fire risks created by their own actions — for example, "building their dream house in the woods." In response, the director of the protection branch in the Ministry of Forests identified brochures, symposiums and videos as ways to inform the public about the risks. In addition, the new wildland fire act being developed by the ministry will identify where there is local and individual responsibility.

The director of the provincial emergency program also briefed the Committee on the insurance issue involving acreage owners affected by the Silver Creek fire. While the insurance coverage is "reasonably and readily available," that definition is currently being challenged by the Ombudsman and by some acreage owners who were not covered. In a situation where an acreage owner is not eligible for fire insurance — because the risk is high — the province ends up picking up the tab for fire damage, under the disaster financial assistance compensation regulations. The witness also stated that similar claims for damage from the Garnet Fire have still not been settled.

Boundary Impediments to Fire Department Response

Some committee members were concerned about the disjointed or "underlapping" boundaries of the fire protection areas. In some situations, concerns about liability would inhibit the response of local volunteer fire departments to emergencies outside their boundaries.

In response, the director of the provincial emergency program confirmed that there is no coverage for fighting fires that occur in-between the defined fire protection areas served by volunteer fire departments. He pointed out that this has a dramatic impact on the availability of road rescue in rural areas within the province. The provincial emergency program does not financially support road rescue. However, if a local fire department or fire service area agrees to respond outside its jurisdiction, the program does pay their costs (mileage, vehicle use, depreciation) and more importantly, covers them for third-party and WC liability.

The members also asked the fire commissioner if his office has established a time line for implementing the Auditor General's recommendation to work with local fire departments to identify practical solutions to the current impediments to fire department response outside prescribed boundaries. In response, the fire commissioner stated that his office can only offer advice and recommendations to municipalities regarding gaps in boundaries. In other words, it cannot take a lead role in securing the necessary mutual aid agreements.

Local Government Participation

As committee members recognized the importance of ensuring local government participation in managing interface fire risks, they were interested in whether the audit team could estimate the level of support among municipalities for the Auditor General's recommendations. They suggested that in order to encourage local government participation and to facilitate the flow of information, the UBCM could be invited to sit on the interface fire committee.

Representatives of the audit team informed the Committee that key officials from the local government level were consulted extensively during the audit. In addition, the Office of the Auditor General received input and support from the Planners Institute of B.C. and the UBCM president for the survey used in the audit process.

Interface Fire Committee

Some members were concerned that the creation of the interface fire committee might result in an unnecessary layer of bureaucracy. They asked the audit team if consideration was given to the feasibility of gathering the responsibilities of managing interface fire risks under one agency. Members were advised that this alternative was not considered.

Committee members also asked for advice with respect to the funding and staff requirements of the interface fire committee. The Office of the Auditor General advised that these questions would be most appropriate for the interface fire committee to address. However, members were informed that in line with normal procedure, the Office of the Auditor General would perform a follow-up audit on the interface fire committee's mandate, objectives, goals and service plan within a year of its creation. It is expected that costs incurred from the work of the interface fire committee would be offset by benefits to the province – for example, in terms of reducing use of the disaster assistance fund and firefighting costs incurred by the Ministry of Forests.

Members also wondered whether the provincial emergency program would be the most appropriate agency to chair the interface fire committee, given the resource constraints it faces. However, they recognized that the protection branch has legitimate concerns about taking over this role, because responding to interface fire risks – which carries a duty to protect human life – might compromise and conflict with the Ministry of Forest's stated mandate to protect forests as Crown assets.

COMMITTEE CONCLUSIONS

The Committee is aware that managing interface fire risks is a complex undertaking requiring interministry coordination and provincial-municipal partnerships. Overall, we think that the Auditor General's recommendations will result in more effective fire risk management.

However, we do have a concern about the time lag between the publication of the report in June 2001 and the progress made to date in implementing the recommendations. Therefore we urge the three key provincial agencies to develop time lines for implementing the Auditor General's recommendations, as soon as is practical.

COMMITTEE RECOMMENDATION

The Committee endorses all the recommendations contained on pages 16-20 of the Auditor General's 1st report for 2001/2002, *Managing Interface Fire Risks*, and recommends the same to the Legislative Assembly.

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AUDITOR GENERAL REPORT NO. 6, 2000-2001

Report on Government Financial Accountability for the 1999/2000 Fiscal Year

INTRODUCTION

The Public Accounts Committee met on December 12, 2001 to consider the Auditor General's report on government financial accountability for the 1999/00 fiscal year. However, as the report is "significantly out of date" and to be replaced soon by a more current version, the Committee decided to focus its review on a related document: "A Proposal to Update the Auditor General Act" (February 2001). In this context, the members heard presentations by the Office of the Auditor General and the Office of the Comptroller General.

SUMMARY OF PROPOSAL

Background

The existing *Auditor General Act* was put in place 25 years ago. As the legislation has never been updated, the Auditor General carries out his work for the Public Accounts Committee according to the terms of a memorandum of understanding with the Minister of Finance. The provisions of the memorandum are designed to provide a rational audit process that allows the Auditor General to fulfill the duties imposed by the existing act.

The terms of this memorandum are discussed on pages 69 and 70 of the 1999/00 report on government financial accountability. It applies to audit appointments requiring the approval of the Finance minister, and also to appointments made by order-in-council. The memorandum is supported by an implementation plan that provides for the Auditor General to be the auditor of some government organizations and to relinquish that role in other cases to the private sector.

Specifically, the amendments contained in the proposal address the following issues: the scope and types of audit services provided by the Auditor General; the professional standards the Auditor General should meet; the method and frequency of reporting by the Auditor General; the appointment of the Auditor General; the independence and accountability of the Auditor General (covering appointment, review and approval of budget, ability to charge fees for audit services, personnel management, financial administration, accountability of the Office of the Auditor General via an annual audit).

Objectives

The Committee learned that the proposal is designed to assist the Office of the Auditor General achieve its primary goal — namely, to see that the Legislative Assembly, the public and the Public Accounts Committee receive the best information possible for assessing the performance of government.

The Deputy Auditor General stated that the proposal for a new act provides the basis for his office to support the Public Accounts Committee, by offering assurances on a broader range of financial accountability information and on the new results-oriented service plan reports of government. The proposal also provides the basis for meeting the Committee's need for results-based information when the Office of the Auditor General undertakes direct reporting audits of government performance.

In addition, the provision for moving auditor appointments from the government to the Legislative Assembly, via a new act, would enable the office to be involved in the audits of entities that legislators have responsibilities for and an interest in. The proposal has the added benefit of reducing bureaucratic process regarding auditor selection.

The Committee also learned that the proposal is intended to strengthen the relationship between the Legislative Assembly and its auditor, by providing for review and approval of the Auditor General's budget by a legislative committee (e.g. Finance or Public Accounts), and by direct and timely tabling of annual reports with the Speaker rather than through a minister of the Crown.

Furthermore, the proposal is designed to give the Auditor General the authority to determine the terms and conditions of employment for his own office staff and the management of its financial resources. Currently the office is subject to government processes regarding personnel and financial management that are inconsistent with the principle of auditor independence.

The Committee learned that the proposal to update the legislation was developed by the former Auditor General, George Morfitt, with the advice of an external advisory group. Further discussions with the previous Public Accounts Committee and other legislators have taken place, since the appointment of the current Auditor General in May 2000.

The witness also pointed out that the proposed amendments are consistent with the fundamental operating principles for the province's statutory officers, as set out in their joint report to the Speaker, which was tabled in April 1998. Furthermore, they are also consistent with the provisions of the *Budget Transparency and Accountability Act.*

GOVERNMENT'S RESPONSE

The Comptroller General updated the Committee on the status of the proposed legislation. The Ministry of Finance has indicated that there is support for some of the proposed amendments to the *Auditor General Act* and intends to take legislative action, as the legislative calendar and other priorities allow. The ministry has reviewed both the Auditor General's original proposal and updated information provided by his office. The witness also observed that Manitoba and Saskatchewan have recently amended their auditor general acts, and that Ontario is considering legislative changes.

The Comptroller General indicated that some of the proposed amendments are "fairly straightforward" and formalize the working arrangement that currently exists through the memorandum of understanding. Other changes are more difficult to implement, because they would involve, for example, overriding the *Public Service Act* and the *Financial Administration Act.*

COMMITTEE CONCERNS

In its deliberations, the Committee discussed issues related to:

- the expanded scope of audit services;
- the cost recovery provisions in the new legislation; and
- the independence of the Office of the Auditor General.

Committee members also asked the witnesses questions regarding the auditing of co-ops, the current application of the information and privacy act, and the fees for audit services.

Expanded Scope of Audit Services

The Committee raised various concerns with respect to the Auditor General's intention to expand the scope of audit services to cover quarterly reports and service plans. Some members thought that the proposed expansion might be beyond the resource capabilities of his office.

The Deputy Auditor General assured members that the intention of the new act is to provide the legislative base to undertake a range of work. However, the audits actually undertaken in a year are set out in the Office of the Auditor General's annual workplan, which reflects the preferences of the House and Members of the Legislative Assembly. This year the office will discuss its planned work program with the Select Standing Committee on Finance.

Cost Recovery

Other committee members were concerned that given the office's existing use of cost recovery, the proposed amendment to enable the Auditor General to perform a limited audit in a public body — section 10(6) — could cause undue hardship for non-profit organizations that receive small government grants.

The witnesses informed the committee that the proposed definition is in fact narrower than the description of a public body in the current legislation, and it focuses on those organizations that are in the government reporting entity. However, the office does have the ability "to follow the dollar," if there are provincial funds voted by the House. In such cases, the office would not charge cost recovery for its audit work, because the Legislative Assembly would direct and finance it.

Auditor Independence

Members were interested in how the Auditor General might balance the need for auditor independence with the current initiative of the statutory officers to investigate the feasibility of sharing services to achieve cost efficiencies.

In response, the Auditor General stated that the proposal would give his office the ability and the authority to determine its own personnel management policies, as well as the use of resources. Under the current legislation, the government determines these policies.

COMMITTEE RECOMMENDATION

The Committee recommends to the House acceptance of the Office of the Auditor General's February 2001 proposal to update the *Auditor General Act*.

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AUDITOR GENERAL REPORT NO. 2, 2001-2002

Transportation in Greater Vancouver: A Review of Agreements between the Province and TransLink, and of TransLink's Governance Structure

INTRODUCTION

The Public Accounts Committee met on January 9, 2002 to consider the Auditor General's report on transportation in Greater Vancouver. It heard presentations by the Office of the Auditor General, the Ministry of Transportation, and TransLink.

SUMMARY OF REVIEW

Background

Negotiations began in 1997 to transfer responsibility for public transit and other transportation services in Greater Vancouver from the province to the region. An agreement was reached in October 1997 that formed the basis for the *Greater Vancouver Transportation Authority Act*, which received royal assent in July 1998.

The legislation provides for a shared governance model. Currently three parties are involved in the governance of public transit in Greater Vancouver, the province's largest urban area. They are the Greater Vancouver Transportation Authority (TransLink), the Greater Vancouver Regional District (GVRD) and the provincial government. Their respective roles and responsibilities are defined in the 1998 *Greater Vancouver Transportation Authority Act*.

TransLink has been in operation since April 1999. Its mandate is to plan, finance and operate a regional transportation system that moves people and goods efficiently and supports the regional growth strategy, air quality objectives and economic development of the GVRD. TransLink provides most services through subsidiary companies — such as Coast Mountain Bus Company Ltd. (operator of the bus and trolley-bus system and SeaBus) and British Columbia Rapid Transit Company Ltd. (operator of SkyTrain).

Although TransLink is a separate entity from the GVRD, the latter performs the role of a controlling shareholder. The GVRD board exercises control over TransLink in two important ways: it appoints 12 of TransLink's 15 board members, and it has veto power over TransLink's regional transit plan and certain revenue sources (property taxes, toll charges, parking taxes and vehicle levies).

The provincial government also plays a role in the governance of Greater Vancouver's transportation system. It is a funder of capital projects, along with TransLink. Currently a provincially owned

company (Rapid Transit Project 2000 Ltd.) is undertaking the SkyTrain expansion project. The province is paying the expenses incurred in constructing the Millennium line (forecast cost of $1.17 billion) and the Coquitlam line ($730 million). Under the cost-sharing agreement (signed in March 2000), once these first two phases are completed, TransLink will pay the province $650 million as its share of the costs.

Provincial government consent and action — in the form of regulations and agency cooperation — is also required before TransLink can utilize some of the funding sources available to it in the legislation for operational needs. For example, TransLink and the GVRD developed a transportation plan that included service expansion, as well as the collection of a vehicle levy to help pay for the expansion. However, when TransLink asked the province to assist it by having ICBC collect the vehicle levy on its behalf, the assistance was denied.

Review Scope

The review focuses on the agreements made between the province and TransLink, and on TransLink's governance structure. The review started in April 2001 when the Auditor General was asked by the provincial government to examine certain issues arising since TransLink was set up. The evidence was gathered up to mid-June 2001 and obtained mainly from interviews with key stakeholders and document reviews.

Review Purpose and Findings

The Auditor General told the Committee that the review focused on three questions: whether service and financial expectations for regional transit have been met; whether rapid transit expansion in Greater Vancouver was occurring as planned; and whether the governance structure now in place has promoted good governance, accountability and decision-making.

The leader of the project team then summarized the review's key findings. Firstly, TransLink did not get the support promised by the provincial government and has been unable to raise the extra revenue needed to meet service and financial expectations for regional transit. Secondly, rapid transit expansion in Greater Vancouver was occurring as planned. For example, at the time of the review, construction of the first phase, the Millennium Line, was very close to being on schedule and budget. Furthermore, notwithstanding the differences of opinion between government and TransLink, both parties are proceeding with the necessary work on the SkyTrain expansion. In the view of the Auditor General, it is time now for the provincial government and TransLink to rebuild the trust and cooperation necessary to make regional transportation work. Lastly, TransLink's governance structure needs a number of improvements to promote good governance, accountability and decision-making. The recommendations regarding the new governance model include a proposal to eliminate provincial representation on the TransLink board.

WITNESSES' RESPONSE

The Ministry of Transportation responded on behalf of the provincial government. The other witnesses represented the Greater Vancouver Transportation Authority (TransLink) and its subsidiary, the B.C. Rapid Transit Company Ltd.

Ministry of Transportation

The Deputy Minister of Transportation stated that the province concurs with the Auditor General's observations and recommendations. His status report to the Committee represents "a work in progress," as his ministry has been working cooperatively with TransLink to come to agreements on

the issues and recommendations in the report. Once negotiations are completed, he offered to update the Committee on the results.

Committee members learned that the Ministry of Transportation has been given a mandate: to deal with the immediate financial issues that TransLink faces; to negotiate an agreement to deal with the startup costs of the Millennium line; to deal with the obligations the province has with respect to the Bombardier plant; to renegotiate the SkyTrain cost-sharing agreement that forms the basis of the legislation; and to seek recommendations on governance changes. The witness also stated that the purpose of the current discussions is to come to a better definition of the roles and responsibilities of the provincial government and Translink with respect to transportation in Greater Vancouver.

TransLink

The CEO of TransLink told the Committee that the transportation authority welcomed the review and the audit's observations. The report shows that the GVTA's actions in response to the lack of new revenue were in fact appropriate. The funding issue has contributed to the lack of public confidence and affected TransLink's ability to meet its service commitments. The witness also noted that the Ministry of Transportation has provided "a very good framework" for acting on the report's recommendations, which TransLink concurs with.

Regarding the actual status of the short-term financial consultation process, which was referenced in the report, the witness informed the Committee that in September 2001, cabinet gave its approval for a 2 cents fuel tax increase (with conditions) to help TransLink obtain short-term revenue. In November 2001, the respective boards of the GVRD and GVTA approved property tax and fare increases. In total, TransLink now has approximately $84 million in annualized new funding to stabilize program funding for the next three years. The financial consultation process has also confirmed that there is public support for the new funding mix.

Regarding the startup costs for the SkyTrain Millennium Line, the witness reported that negotiations are being finalized with the province. A TransLink subsidiary, the B.C. Rapid Transit Company Ltd., has now taken over the operation of the line, which went into partial service on January 7, 2002.

The Committee learned that TransLink concurs with the report's recommendations regarding governance, even though their adoption will mean significant changes in the legislation. A governance task force has been set up, with representation from the GVRD and GVTA boards. There is also a working group, consisting of the Deputy Minister of Transportation and the CEOs of TransLink and the GVRD. The review of governance will be completed by the end of June 2002; and legislation, in the form of amendments to the existing act, is expected in the fall.

COMMITTEE CONCERNS

After hearing from the witnesses, the Committee raised issues relating to:

- the operations and maintenance contract;
- the SkyTrain expansion project schedule;
- the revenue sources for TransLink;
- the problems of fare evasion and vandalism;
- the costs of public transit in the lower mainland; and
- the extent of accountability in the new governance model.

Committee members also asked the witnesses questions about the terms of the original and the new cost-sharing arrangements with TransLink, the future of the AirCare program, the impact of the

ICBC premium freeze on transit ridership, and federal funding for transportation services. As well, they sought clarification of specific comments and references on pages 2, 3, 11, 15 and 46-47 of the Auditor General's report.

Operations and Maintenance Contract

Some members asked the witnesses to clarify why Bombardier Inc. anticipates that the annual cost of operating and maintaining the Expo and Millennium lines will be $4.5 million higher than the original estimate of $63 million. Other members expressed concern that the company has not yet lived up to its contractual commitments to provide cars for SkyTrain's new Millennium Line.

In response, the Deputy Minister of Transportation explained that if the province fails to obtain an operations and maintenance contract with Bombardier, the government has an obligation to purchase the company's facility in Burnaby — an option the province would prefer to find a negotiated way out of. The witness also told the Committee that the purchase of the plant would cost B.C. taxpayers between $10 million and $20 million.

The Committee also learned that both TransLink and the province are currently conducting the negotiations with Bombardier, and that the transportation authority has the option of operating the Millennium line itself, subject to the approval of the province.

SkyTrain Expansion Project Schedule

Some committee members queried the review's conclusion that the Millennium Line was likely to go into operation "close to schedule and on budget." Instead, they suggested that the project was behind schedule, if the original opening date (May 2000) is used as the measure.

The review team explained that their conclusion was pertinent when the fieldwork was completed (mid-June 2001). At that time the new line was expected to open at the end of 2001, and the next two stations by July 2002, according to the schedule of the company undertaking the expansion project. The review team did not go back and look at the original time line.

TransLink's Revenue Sources

The Committee also inquired about the financial obligations incurred by B.C. taxpayers, due to TransLink's past, present and future expenditures. Some members were particularly interested in the province's obligations regarding the SkyTrain expansion project, claiming that it is "essentially a lower mainland transportation issue that has very little to do with moving other British Columbians," particularly interior and Island residents. Others asked the witnesses where British Columbia ranks in terms of provincial contributions to public transit.

In response, the CEO of TransLink reviewed the transportation authority's revenue sources. She stated that the biggest source (42 percent) is revenue from fares; the next biggest source is TransLink's current 9-cents-per-litre fuel tax, ; and other sources are the property tax and hydro tax, which are also GVRD-specific. Although the bulk of TransLink's revenue sources come from the GVRD, it is the result of tax room that the province has transferred to the region.

Another TransLink officer explained that the funding formula for the GVTA is unique in Canada, because it has a broad range of revenues available to it over and above property taxes and fares. Other major centres rely on the latter to fund public transit — except for Montreal, which also has a vehicle levy.

The Deputy Minister of Transportation confirmed for the Committee that his ministry is picking up the responsibility for servicing the debt for the construction of the Millennium Line and the

startup costs, because these are mainly capital costs. Besides the capital cost of the new line ($1.1 billion-plus), the province has also invested $5 million to $10 million in the proposed extension to Coquitlam for engineering and planning activities.

The Comptroller General also had input on this topic. He explained to the Committee that when the *Greater Vancouver Transportation Authority Act* was passed, there was a division of assets between the province and the GVRD. The province retained the Expo rapid transit line and leases it to TransLink for the nominal sum of one dollar a year, but its amortization costs remain on B.C. Transit's books. For the new Millennium Line, the amortization and interest expenses ($200 million) will be reflected in the Ministry of Transportation's upcoming budget.

Fare Evasion and Vandalism

Some members inquired about the extent of fare evasion on the SkyTrain system. They asked whether the witnesses had investigated the degree to which fares are actually paid for ridership and the feasibility of using turnstiles. Others linked the issue of fare evasion to the problem of vandalism on the lines and in TransLink stations.

The CEO of TransLink conceded that fare evasion is perceived to be an issue. However, the transportation authority's latest analysis estimates the loss to be about 3 percent. The witness informed the Committee that TransLink plans to complete its fare evasion audit soon. They intend to assess the extent of the problem before deciding if there is a business case for adding turnstiles to the SkyTrain system (an estimated $60 million direct capital expenditure) or for adopting other less capital-intensive measures.

Regarding vandalism, the CEO of the B.C. Rapid Transit Company noted that public vandalism is a problem everywhere, not just on the SkyTrain system, where graffiti is the main concern. He informed the Committee that there are enforcement people — six police officers, special provincial constables — on the system at all times.

Costs of Public Transit

Another concern of the Committee was the public perception that the costs of "the entire mass transit edifice" in the lower mainland are significantly higher, compared with other transit systems inside and outside the province. Some members inquired whether the agreements with transit operators are impeding the efficiency of the system.

In response, the CEO of TransLink stated that the costs at issue are associated with the Coast Mountain Bus Company, the major provider of bus services in the region. Its costs are $80 per hour, compared with $69 for the smaller Blue Bus transit system on the North Shore. To assist TransLink to find $16 million in efficiencies next year, the company's management and union are working together on a financial plan. The search for efficiencies is also a major part of the current collective bargaining process.

The Committee also learned that TransLink staff are preparing for the March board meeting a three-year program and a detailed 2002 road and transit program and capital plan. Their planning indicates that there is room for moderate growth of the transit program, including provision for restoring services cut back in March 2001, and for full funding of roads, now that the new funding mix is in place.

Accountability in the New Governance Model

The Committee queried how desirable a step it would be to remove the three provincially appointed representatives from the TransLink board, as recommended in the Auditor General's report. Some members were concerned that there would be no accountability to the provincial taxpayers, if this legislative change were made. Others asked if the concept of direct election of transit users to the TransLink board has been considered, and what the makeup of transit boards is in other jurisdictions. They also stressed the importance of having broad public participation in the planned consultation process regarding the new governance model.

Officials from the Office of the Auditor General stated that the assumption they made in their review is that public accountability for the operation of the TransLink system occurs through the GVRD, the authority with the most direct link to the taxpayers. Although councillors and mayors are appointed to serve on the GVRD board — which, in turn, appoints 12 of the 15 directors of TransLink — they are officials elected by the voters in their respective municipalities prior to their appointment. The review team leader believed that "the driving factor" is to make sure that there is a proper board that has the necessary knowledge, skills and experiences to be able to run TransLink, and to have the proper mechanisms in place to ensure that the board is accountable. Their review did not look at the makeup of transit boards in other jurisdictions.

Regarding the new governance model, the CEO of TransLink reiterated that the options are currently being reviewed. She pointed out that TransLink is not just a transit authority because it also finances road and bridge improvements. In this sense, it is more like a regional Crown. Therefore part of the challenge is to find the right governance mix so that the entity can deal with a $700 million operation and a $1 billion capital program, and at the same time be accountable for transit services to the taxpayers of the region

COMMITTEE CONCLUSIONS

The Committee is satisfied with the processes that have been put in place to implement the Auditor General's recommendations. We are interested in learning about the extent of public participation in the upcoming consultation process regarding the new governance model. The Committee would also like to know the outcome of the current cost-sharing and governance negotiations between the province and TransLink and expects to receive an update on their results during the follow-up process.

COMMITTEE RECOMMENDATION

The Committee endorses the 24 recommendations of the Auditor General's 2nd Report for 2001/2002, *Transportation in Greater Vancouver: A Review of Agreements between the Province and TransLink, and of TransLink's Governance Structure*, and recommends the same to the Legislative Assembly.

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AUDITOR GENERAL REPORT NO. 3, 2001-2002

Building Better Reports: Public Performance Reporting Practices in British Columbia

INTRODUCTION

The Public Accounts Committee met on January 9 and 30, 2002 to consider the Auditor General's report on building better reports. It heard presentations by the Office of the Auditor General, the Treasury Board and the Crown agencies secretariat.

SUMMARY OF REVIEW

Background

The legislative framework for public performance reporting practices in B.C. is set out in the *Budget Transparency and Accountability Act* (BTAA). The passage of this act in July 2000 represented the culmination of various efforts to develop a new accountability framework for the public sector in British Columbia.

In 1994 the former Auditor General embarked on a joint initiative with the deputy ministers' council to enhance accountability for performance in the public sector. They issued three joint reports to the Legislative Assembly between 1995 and 1997 that proposed a new accountability reporting framework and an implementation plan. Under the chairmanship of the late Fred Gingell, the Select Standing Committee on Public Accounts of the day actively supported the enhancing-accountability-for-performance initiative, and its members formally endorsed the new accountability reporting framework in 1996.

In 1999 the former Auditor General issued a report on the estimates process that recommended some significant changes to the way government plans, budgets, measures and reports on its performance. Subsequently, the government established an independent budget process review panel, chaired by Douglas Enns. In September 1999, the panel released its report, *Credibility, Transparency and Accountability – Improving the B.C. Budget Process.*

The majority of the Enns report's recommendations are reflected in the BTAA. The act requires government as a whole, and all ministries and government organizations to report publicly on their plans and on their actual performance in relation to those plans. In 2001 the House amended the

BTAA to enhance public performance reporting practices. Under the amended act, performance plans and reports are now called service plans and service plan reports respectively.

Review Scope

The review focused on the 2000/01 annual reports and 2001/02 – 2003/04 performance plans of 19 government organizations. These organizations included ministries, Crown corporations and one agency, and they are listed in the appendix on page 59 of the report. The review team also examined documents relating to government-wide reporting – the 2001-2004 strategic plan of government, the March 2001 budget reports, and the estimates for 2001/02. (Report, p. 12)

Review Purpose and Findings

The project leader told the Committee that the purpose of the review was to provide an assessment of how well government organizations are doing with their public reporting and where improvements can be made in the future. He explained that the review was based on a set of criteria developed by the Office of the Auditor General from several sources — including the BTAA, the Enns report, the Canadian Comprehensive Auditing Foundation (CCAF) and the U.S. General Accounting Office.

The criteria are gathered under four key questions about the plans and reports:

1) Is it clear what public purpose the organization serves and how it carries out its role?
2) Is it clear what the intended results are and the extent to which the intended results are being achieved?
3) Is the organization being transparent and credible in explaining its plans and performance?
4) Is it clear whether the organization has the capacity to maintain or improve results in the future?

The review team concluded that most of the documents they examined were "very well presented." Although none of the plans and reports met all of the criteria established for the review, the Auditor General expects that the quality of reporting will improve with experience, information-sharing and with greater familiarity with expectations.

Regarding the first question, the Committee learned that generally speaking, descriptions of purpose and program delivery proved to be the strongest elements of the plans and reports reviewed. As well, descriptions of governance and operational structure were adequately presented.

The second question covered the setting of goals and objectives, performance measurement and the reporting of financial information. Among these three topics, as the review team expected, performance measurement proved to be the most problematic area. The team found that many organizations tended to focus on inputs and processes rather than on measuring outputs and outcomes and providing targets for performance.

With respect to the third question, the project leader reported that most organizations have made "good efforts" to ensure that their plans and reports are readily available and reader-friendly, but that the reporting of data sources could be improved.

Finally, regarding organizational capacity, the review team concluded that only a few of the plans and reports addressed the organization's current capacity or outlined strategies for ensuring continued operations in the long term.

GOVERNMENT'S RESPONSE

Treasury Board

The Secretary to Treasury Board stated that the Auditor General's report is helpful and provides additional information that will foster discussion and dialogue on performance management, which the government is committed to strengthening. He then highlighted the sections of the amended BTAA that strengthen public performance reporting. These include the introduction of signed ministerial accountability statements; the requirement for government organizations to hold annual public meetings; the release of service plans on budget day to improve the integration of the budgeting and planning processes; and the structural change to a three-year planning cycle.

The Committee learned that with the new three-year cycle, central agencies are now focusing on service plans as "high-level accountability documents." In other words, they are providing central guidance on common elements of government reporting and then "letting the managers manage." The performance management section within Treasury Board prepares the specific guidelines that describe the requirements of the amended BTAA, which provides the basic structure and framework for the ministry service plans.

When outlining the government's response, the witness stated that Treasury Board has concerns about implementing all of the Auditor General's performance criteria into the three-year budgeting and planning process at this point in time. While the set of criteria developed by the Office of the Auditor General is useful, he indicated that the government may want to draw on other resources to find the right criteria for its management objectives.

The Committee also learned that the government has reservations about the report's final recommendation, which would make it a statutory requirement for the Auditor General to comment on the fairness and reliability of the information provided in service plan reports. The Secretary to Treasury Board stated that the new planning and budgeting process needs time to develop before the government can determine exactly how it will handle the audit and who will do that work.

Crown agencies secretariat

The CEO of the Crown agencies secretariat described the Auditor General's report as "a very informative and a very useful tool," which has already been shared with many government organizations.

The witness then identified the major challenges facing the secretariat with respect to the development of service plans, performance measurement and annual reporting. In terms of government-wide reporting, these challenges include: how to identify the information that should be provided; how best to balance business confidentiality and accountability requirements; and how to compare effectiveness in terms of performance across organizations, when they are operating in so many different sectors with different disclosure and reporting practices currently in place.

In her general response to the report, the witness confirmed that the goals of the Crown agencies secretariat and the Office of the Auditor General are very similar. Where the two agencies differ is in terms of their approach. The secretariat's approach is to raise the bar over time, focusing on public reporting at a strategic level, whereas the auditor general's office has set a very high bar to begin with and focuses on "more operational level reporting."

With respect to the first two recommendations, the witness cautioned that the secretariat is not at the stage yet to adopt all the Auditor General's criteria for service plans, given the variation in organizational capacity and the diversity of the government organizations that her agency is

accountable for. Nonetheless, Crown agencies have been encouraged to use the Auditor General's set of criteria as a self-assessment guide.

The witness informed the Committee that the government organization committee, which is accountable for service planning, has reviewed the report. Concerns were raised in that forum about how the level of detail required may detract from the primary purpose of the service plans themselves; and how the collection of data to support the criteria may be onerous, particularly in the smaller organizations. Some Crown agencies also wanted to retain the flexibility of having both the Auditor General and private sector auditors perform audits, rather than be required by law to rely only on the former.

COMMITTEE CONCERNS

In its deliberations, the Committee gave careful consideration to the two major concerns of the government – namely, the impact of the full implementation of the Auditor General's criteria (recommendations Nos. 1 and 2); and the feasibility of a statutory requirement for independent assurance (recommendation No. 6).

On a motion by the Deputy Chair, the Committee adjourned debate on January 9 to allow for further reflection. At its next meeting on January 30, the Deputy Chair tabled a proposal, which was prepared in consultation with the Office of the Auditor General and the government witnesses. He explained that the proposal has a dual purpose: to address the concerns of the government witnesses in a way that is acceptable to the Auditor General, and to frame a set of recommendations for the Committee to present to the House that reflects current thinking about public performance reporting.

Some members, however, felt that it was important to endorse the original recommendations in the Auditor General's report both in principle and in practice. After reviewing the draft proposal, they expressed concerns that the rewording represented a "watering-down" of some of the original recommendations and a rejection, in effect, of the report's final recommendation. Their motion to adopt the original recommendations, though, was defeated.

In response, the Auditor General stated that the language of the Committee's first five recommendations is consistent with the equivalent ones in his report. He advised, however, that the sixth recommendation in the draft proposal is not consistent with what he has recommended or with what he thinks should happen. Nonetheless, it does represent "significant progress."

During the ensuing debate on the proposal, the Committee revisited the issues that were raised during the January 9 meeting:

- the criteria to be used for service plans and annual reports; and
- the statutory requirement for the Auditor General to comment on public performance reporting information.

Criteria for service plans and annual reports

Some members had concerns about the Auditor General's first two recommendations on the criteria to be used for service plans and annual reports. Basically, they did not believe that his office should become involved in the process of developing the criteria to measure the results of government performance. In order to maintain the independence of his office, they suggested that the Auditor General needs to focus on looking critically at government performance results and on assessing its method of performance reporting and the criteria used, but government should be responsible for

establishing its own criteria of performance measurement. This arrangement would also make the process of performance reporting more manageable for ministries and government organizations.

Other members, however, felt that the independence of his office enabled the Auditor General to take the lead responsibility for developing the criteria for measuring performance in the public sector. They also rejected the idea that there is a need to include any other criteria for public performance reporting — identified by, say, the Public Sector Accounting Board.

In response, the Auditor General confirmed that the criteria proposed in his report are already based on a review of practices across Canada and elsewhere, including emerging national principles, as well as consultation with other provincial auditors. However, he also acknowledged that the work on developing public performance reporting principles and identifying best practices for governments is ongoing.

Statutory requirement for independent assurance

Before beginning their discussion, committee members asked for clarification of the intent of the report's recommendation No. 6, requiring the Auditor General to comment on service plan reports. The Auditor General explained that the term "comment" was chosen to give some flexibility, because it is going to take some time to get to the full-level audit assurance stage. In implementing this recommendation, the Auditor General and his staff would begin with "a very limited review" focusing on parts of the performance information included in a service plan report, then move on to a "review level of assurance" before achieving a full audit level of assurance. The process is expected to evolve with consultation, discussion and experimentation.

The Committee also learned that the Auditor General currently has the ability, under the *Auditor General Act*, to examine the service plans and reports of government and provide advice. Some members felt, though, that only a statutory requirement would safeguard the principle of independent assurance in public performance reporting information. They believed that implementation of recommendation No. 6 would enshrine in law the Auditor General's duty to ensure that there is fairness and reliability in the information provided by ministries and government organizations, so that the work could not be sidestepped or forgotten, or its priority lowered. In addition, a statutory requirement would ensure that resources are allocated for that specific objective.

However, other committee members argued that it would be premature to amend the BTAA and put into legislation a performance measurement process that remains largely untested, and without knowing how much it will cost. They suggested that as the Auditor General already has "free and unfettered access" to hold government accountable, it would be more cost effective to undertake pilot studies and experiment with methodologies at this point in time, and to propose legislative amendments once the issues have been more fully explored. Provision would be made to ensure that the Auditor General can make progress reports to the Committee regularly.

COMMITTEE CONCLUSIONS

The Committee supports the efforts being undertaken by the government and the Auditor General to enhance accountability through improved service plans and annual service plan reports prepared under the requirements of the amended *Budget Transparency and Accountability Act*. The Committee recognizes the value contributed by the Auditor General's report in advancing the ability of ministries and government agencies to prepare quality service plans and reports.

COMMITTEE RECOMMENDATIONS

With regard to the Auditor General's first recommendation, the Committee recommends that ministries, government organizations, and government as a whole, draw on the criteria and examples cited in the Auditor General's report and other sources when they develop their plans and annual reports.

With regard to the Auditor General's second recommendation, the Committee recommends that when developing guidelines for service plans and annual service plan reports, the government draw not only on the criteria used in the Auditor General's report, but also on emerging national principles for public performance reporting and other best practices in the public and private sectors. Further, the Committee recommends that government work together with the Auditor General and legislators to seek consensus on the public performance reporting principles and the criteria that should be used for the B.C. public sector.

The Committee endorses recommendations Nos. 3 and 4 of the Auditor General's 3rd report for 2001/2002, *Building Better Reports: Public Performance Reporting Practices in British Columbia*, and recommends the same to the Legislative Assembly.

With regard to the Auditor General's recommendation No. 5, the Committee notes that the Canadian Comprehensive Auditing Foundation is developing national performance reporting principles, based on consultations with legislators and governments across Canada. Therefore the Committee recommends that legislators and government consider active participation in this process and other activities that contribute to the development of nationally acceptable standards that reflect the needs of British Columbia's public sector.

With regard to the Auditor General's recommendation No. 6, the Committee endorses the principle that independent assurance should be provided on the reliability of information that ministries, government organizations and government as a whole provide in their annual service plan reports and that assurance should be included in the annual reports. However, because both the principles for such reporting and the methodology for providing assurance thereon are still evolving, the Committee believes it would be premature to seek legislative amendments in this regard. Therefore the Committee recommends that:

- government working with the Auditor General develop and implement a program over time to ensure that independent assurance is provided and report back to this Committee on progress;
- as part of this program development, pilot studies be utilized to explore the best approach for providing comment on the reliability of information in service plan reports; and
- progress be assessed before decisions are taken on whether and when specific amendments to legislation may be appropriate.

8

OTHER MATTERS

Retention and Disposal of Government Records

INTRODUCTION

At the public meeting on January 30, 2002, the Provincial Archivist briefed the members of the Public Accounts Committee on their role in the process of regulating the retention and disposal of government records. On February 7, 2002, the Committee endorsed the three resolutions for records retention and disposal authorities, submitted by the Public Documents Committee.

BACKGROUND

In accordance with section 3 of the *Document Disposal Act* (RSBC 1996, c. 99), the Public Documents Committee submits each year for consideration and approval by the members of the Select Standing Committee on Public Accounts a copy of each of the records retention and disposal authorities it has recommended for approval by the Legislative Assembly. Once approved, those authorities govern the retention and final disposition of the government records described therein.

The five-member Public Documents Committee (PDC) established under the *Document Disposal Act* (RSBC 1996, c. 99, s. 3(1)) comprises the Provincial Archivist (Chair), the Comptroller General, and three other persons appointed by order in council. No government record may be destroyed except upon the written recommendations of the PDC and the approval of the Executive Council or the Legislative Assembly.

The British Columbia Archives is responsible for administration of the *Document Disposal Act* and provides administrative services to the Public Documents Committee. Under Treasury Board's *General Management Operating Policy* (c. 8), the British Columbia Archives is responsible for ensuring that the recorded information of government is properly managed, including its classification, retention and disposition. The British Columbia Archives is also responsible for preserving and making accessible government records which have ongoing archival value to the Province.

COMMITTEE RECOMMENDATIONS

The Committee recommends that the management of the retention and final disposition of the operational records of the Student Services Branch, Ministry of Advanced Education, be in accordance with the records schedules, standards, and guidelines described in the *Student Services Operational Records Classification System.* (Resolution No. 1)

The Committee recommends that the management of the retention and final disposition of the operational records of the Science, Technology and Telecommunications Division, Ministry of Competition, Science and Enterprise, be in accordance with the records schedules, standards, and guidelines described in the *Science, Technology and Telecommunications Operational Records Classification System*, as amended. (Resolution No. 2)

The Committee recommends that the management of the retention and final disposition of the operational records of the Common Information Technology Services Division, Ministry of Management Services, be in accordance with the records schedules, standards, and guidelines described in the *Information Technology Services Operational Records Classification System.* (Resolution No. 3)

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